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TAGS: ECON EIND ETRD KS
SUBJECT: SSANGYONG STRIKE'S END UNLIKELY TO FORESTALL COLLAPSE

Classified By: Economic Minister-Counselor Gregory S. Burton.
Reasons: 1.4(b) and (d).

1.(SBU) Summary: A 77-day occupation of the Ssangyong Motor Company by laid-off workers ended under police pressure on August 6. The noisy climax developed gradually from the January filing for court receivership of the company, the majority of which is owned by China's Shanghai Automotive Industry Corporation (SAIC). The filing was necessitated because the company was damaged by a liquidity crisis in the last quarter of 2008 due to the global credit crunch and a sharp decline in sales. Its court-appointed managers met with creditors on May 22, but failed to reach agreement on the company's proposed restructuring plan, which included asset sales and layoffs totaling 37 percent of Ssangyong's total workforce. Nearly one thousand workers slated for lay-offs took over the company's only plant, preventing Ssangyong's remaining employees from returning to work. Clashes between striking workers and current employees resulted in scores injured. During a five-week stand-off, police sealed off the factory and gradually increased pressure, forcing the remaining 458 holdouts to end the occupation on August 6.

¶2. (SBU) Summary continued: Ssangyong has until September 15 to submit a restructuring plan, but the bankruptcy court has ordered another audit to assess the effect of the strike on the company's viability. While all of Korea's auto firms faced difficulties during the financial crisis and global slowdown, the ROKG limited its auto sector assistance to policies aimed at boosting domestic consumption and providing liquidity to financing companies and parts suppliers. Industry analysts remain pessimistic regarding Ssangyong's chances for survival. Ssangyong's failure would have substantial ripple effects on its approximately 1,300 vendors, which employ tens of thousands of workers. Ssangyong's collapse may also reinforce Korean fears regarding Chinese investment, especially with regard to technology transfer and Korea's potential loss of national competitiveness to China. The climactic events of late July and early August increased the media focus on the case and the stakes for the ROKG to address at least the consequences of the firm's bankruptcy. End Summary.

Ssangyong on the Brink with Limited ROKG Intervention

¶3. (SBU) Ssangyong Motor Company, Korea's fifth largest carmaker, has become Korea's biggest corporate casualty of the global recession. The company faced a liquidity crisis starting in the last quarter of 2008 due to the global credit crunch and a sharp decline in sales. The automaker, which specializes in SUVs, experienced a net loss of almost 710 billion won (USD 511 million) in 2008.

Ssangyong's Chinese parent company, SAIC, refused to provide additional funding unless workers agreed to massive job cuts. The labor union balked and threatened to strike. With few other options, Ssangyong filed for court receivership in January. Its court-appointed managers met with creditors at the Seoul Central District Court on May 22, but failed to reach agreement on the company's proposed restructuring plan, which included asset sales and layoffs totaling 37 percent of Ssangyong's total workforce. (Job cuts are considered crucial to securing creditor approval of any restructuring plan). At this stage, nearly one thousand workers took over the company's only plant in what turned out to be a 77-day standoff that cost the company USD 250 - 300 million. The company's domestic and export sales in the first half of 2009 amounted to about 13,000 vehicles, a 73.9 percent drop year-on-year compared to an average drop of 15-20 percent for Korea's other carmakers in the same period.

¶4. (SBU) While conditions have begun to improve, Korea's other automakers (Hyundai, Kia, GM Daewoo and Renault-Samsung) all faced their own share of difficulties due to the global recession, albeit to a lesser degree. These companies cut production, idled plants, laid off workers, and cut wages and benefits. Hyundai cut spending by 20 percent, downsized its research and development staff for the first time since the Asian financial crisis, decreased output of larger vehicles in favor of expanded production of compact cars, retooled assembly lines to produce various models on the same line, cut global production by 35 percent, and reduced domestic output by 25-30 percent in the first quarter. All of Hyundai's overseas plants, with the exception of those in China, experienced layoffs or reduced work schedules. GM Daewoo, Korea's third largest carmaker, also faced a liquidity crisis during the first and second quarters which stemmed from massive losses on its currency hedging contracts. The company negotiated a 90-day rollback on payments of half of its contracts (USD 400 million worth), which provided temporary relief, and GM Daewoo hopes to conclude by the end of August talks with Korea Development Bank (which has a 28 percent stake in the company)on long-term funding requirements for new car development and restructuring.

¶5. (SBU) The Korean government, for its part, has limited its auto sector assistance to policies aimed at boosting domestic consumption by reducing taxes and providing liquidity to financing companies and parts suppliers. Frustrated with what it sees as the willful blindness of labor unions to the problems automakers are facing in the current economic climate (i.e. labor unions demanded a freeze in job cuts, a 4.9 percent raise in pay, minimum wage guarantees, etc. despite the steep drop in global demand), the government threatened to discontinue the 70 percent reduction in taxes (up to 2.5 million won) for replacing older cars with newer models, set to expire at the end of the year, if there is no progress in labor-management relations and restructuring efforts by automakers. This tax cut, combined with a 30 percent reduction in the individual consumption tax which expired on June 30, resulted in an average 46.2 percent year-on-year increase in domestic auto sales in June, the best sales month so far this year for both local automakers and importers, including Ford.

Ssangyong Restructuring Plagued by Labor Union Inflexibility

¶6. (SBU) Ssangyong's court receivership filing came about when SAIC failed to rectify Ssangyong's financial problems in early January, providing the company with only USD 45 million (versus the USD 224 million Ssangyong estimated was needed to pay back its creditors). SAIC refused to supply the rest of the funds

unless Ssangyong's labor union agreed to a restructuring plan that included a job cut of 3,000 out of approximately 7,000 total employees. The union rejected the plan and threatened not only to strike, but also to sue SAIC for illegal technology transfers and for failing to invest 1.2 trillion won as originally promised. SAIC estimated in November 2008 that its 51 percent stake had almost halved in value to USD 271 million. (SAIC invested USD 500 million for a 49 percent stake in Ssangyong in 2004.) Under court receivership, SAIC has relinquished management control over Ssangyong, but still retains ownership of the company. The court appointed two Korean managers to oversee the restructuring process. Should restructuring fail, the company will be liquidated or a new owner will be sought through a merger and acquisition process, as was undertaken with Kia in 1998 when it became a Hyundai affiliate.

¶7. (SBU) On May 22, Ssangyong stakeholders, including creditors and shareholders, met with court-appointed managers at the Seoul Central District Court, but rejected management's proposed restructuring plan. Ssangyong was ordered to submit a new plan by September 15. The company planned to pursue sales of idle assets, relocate its Seoul offices, request a 250 billion won loan from Korea Development Bank, and lay off 2600 workers (1,670 of whom have already accepted voluntary retirement), but its prospects for survival looked increasingly dim as 800-1200 workers and others, including members of the Korean Confederation of Trade Unions (KCTU), occupied the company's sole factory on May 22. Management responded by shutting down the factory and threatening police action against the illegal occupants, but also tried dialogue when police initially signaled reluctance to intervene in the dispute.

¶8. (SBU) On June 26, Ssangyong's managers presented the striking workers with a final arbitration offer -- 450 workers were to receive severance packages, 200 were to be placed on leave without pay status until 2012, and the remaining 320 were to be rehired by affiliated companies or given sales jobs. The union promptly rejected this offer. Some 3000 of Ssangyong's remaining employees had made several attempts to return to work after

June 16, but were largely unsuccessful. Striking workers armed themselves with steel pipes and injured 80 people in a 32-hour standoff which ended on June 27. Ssangyong obtained a court injunction on July 1 to stop the occupation of the plant. Police took up positions and gradually increased pressure throughout July and early August. More than half the strikers voluntarily left, but 458 continued to occupy the paint facility at the plant to the end.

Strike's Dramatic End Still Leaves Ssangyong Battered

¶9. (SBU) On August 4, riot police began what turned out to be a 3-day operation to force the remaining strikers to vacate. Using cranes, helicopters, and liquid tear gas, they tightened the cordon around the occupiers, who fought back with slingshots, Molotov cocktails, and burning tires. Police bottled the remaining workers up inside a single building within the factory. Nearly 50 policemen and 16 workers were injured in the operation. Talks between labor and management resumed on August 6 and by late afternoon of that day agreement on the broad framework for a layoff plan had been reached. That plan calls for lay-offs of only 52 percent of the occupying workers with the rest to be put on unpaid long-term leaves of absence, a much weaker outcome for labor than the June 26 proposal the union rejected. Criteria by which workers will be identified for termination have not yet been defined.

¶10. (SBU) Creditors representing 600 suppliers filed for the company's liquidation in Seoul Central District Court on August 4, claiming Ssangyong owed them 276 billion

won (USD 225 million) and that 200,000 employees of those suppliers had been adversely affected. The suit was withdrawn on August 7, after the end of the occupation of the factory. Ssangyong employees returned to work on August 8 and 9 to clean up the plant and prepare to resume production. Company executives said that so far no serious damage to core facilities or equipment had been discovered and that they would move quickly to get production started again.

¶11. (SBU) Most accounts put the direct cost to Ssangyong of the labor action at USD 259 million, although some estimates have ranged up to USD 300 million, with total damages to the Pyongtaek economy and Ssangyong's suppliers as high as one trillion won (USD 820 million). The lack of production and the negative impact of the standoff drove Ssangyong's July sales (268 vehicles) down 98.4 percent year-on-year while other local automakers benefited from tax cuts with average sales increases of 46 percent year-on-year.

¶12. (SBU) Troubles continue to deepen for both management and labor. Main creditor Korea Development Bank (KDB) has turned down Ssangyong's request for USD 122.5 million to finance development of the C200 SUV, seen as key to the company's future viability. KDB has indicated that it will only provide 100 billion won (USD 81 million) for workers' severance pay and restructuring. Employee paychecks withheld since March and retirement buyout packages that now must be paid add more cash pressure on the company. Gyeonggi provincial police have issued arrest warrants for 64 union leaders and leaders of workers' groups that supported the strike. Police also announced they intend to seek 548 million won (USD 445 million) from the union for injuries to police officers and damage to police vehicles and equipment.

¶13. (C) Industry analysts remain pessimistic regarding Ssangyong's chances for survival. According to Lee Suck-jae of Mirae Asset Securities, Ssangyong would not regain its competitiveness even if it produced at its full capacity of 200,000 units per year. (Ssangyong sold 92,665 cars in 2008.) Moreover, the company l acks the ability to finance long-term projects in green car development, is losing to competition from Hyundai and Kia in the SUV market, and has lost any possible attractiveness for foreign investors. The court's review of the firm's recovery plan on September 15 will be a crucial event. If the court decides the plan is plausible, it will convene a meeting with creditors in one or two months to seek their acceptance. It has been widely reported, however, that a number of ROKG officials and creditors believe that Ssangyong is not really viable; the revival plan is to be undertaken only with a view to

eventual sale of the company to a third party.

Ramifications for ROKG Auto Sector and Chinese FDI

¶14. (C) Ssangyong's failure may also have ramifications on Chinese investment in Korea. At a January 13 event, two Chinese officials responsible for commercial promotion at the Chinese embassy in Seoul raised the Ssangyong case with EMin. The officials were highly critical of the Ssangyong union as well as the ROKG's handling of the situation, claiming the case would end Chinese investment in Korean companies. They attributed this to the negative economic conditions and poor relations with the "incredibly difficult" union. We are sure that more recent events have only hardened this Chinese view. The union has indeed attempted to play on nationalistic sympathies, proclaiming that, "January 9, 2009 shall be remembered as the day Chinese company SAIC trampled South Korean company Ssangyong Motor." Ssangyong's collapse could reinforce Korean fears regarding Chinese investment, especially with regard to technology transfer and Korea's potential loss of national competitiveness to China. Nonetheless, as the labor action dragged on and

SAIC's involvement diminished, this aspect of the issue receded somewhat.

¶15. (C) As Korea's weakest carmaker, Ssangyong appears to stand little chance of surviving the global recession. The highly visible labor action and police reaction have focused attention on the ROKG's handling of the strike and more generally on labor-management relations. Some have raised concerns with the deleterious effects the whole affair will have on Korea and its world standing. Ssangyong's failure will have substantial ripple effects on its approximately 1,300 suppliers, which employ tens of thousands of workers. The ROKG is under pressure to intervene to ensure that Ssangyong can be liquidated quickly or prepared for merger/acquisition. The government has avoided involvement thus far, however, in what analysts say is a significant step forward in labor relations. The knock-on effect of a Ssangyong failure threatens many thousands of additional jobs in parts suppliers and the local economy around the city of Pyongtaek. Already there is growing pressure for the ROKG to declare Pyongtaek as a "special" economic zone to help generate employment in the case of final Ssangyong bankruptcy.

¶16. (C) Politically, the labor action drew only limited support from the KCTU, from NGOs, and from opposition political parties. In particular, the refusal of fellow KCTU members Hyundai and GM Daewoo to launch similar strikes is yet another signal of the weakening umbrella labor organization. One member of the GNP National Policy Committee in a conversation with the DCM assessed that the Ssangyong labor action marked a turning point in the power of unions in Korea. He believed that the destructiveness and violence wielded by the union in the context of a bankruptcy scenario had alienated the broader public. Academics have agreed and noted that the Ssangyong strike reinforced the Korean public's growing opinion that labor is more of a special interest group than a social movement.
STEPHENS